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# Making Informed Distribution Choices

Don and Jean Butler are both age 65 and ready to retire. Before they actually do, however, they should weigh the distribution options of their retirement savings plans with a view toward making their money last.

## A Full Menu

Because the Butlers are both older than 59 ½ and fully vested, once they retire, they can withdraw all the money in their employer-sponsored retirement accounts whenever they wish, subject to the terms of their retirement plans. The downside: Lump-sum distributions are subject to regular income taxes plus federal withholding of 20 percent of the distribution. And having that money readily at hand makes it too easy for the Butlers to run through their savings prematurely. Lucky for them, their retirement plans may have other distribution options.

- One option may be to leave the money in their retirement plans, keeping in mind that at age 70 ½ distributions must begin and federal and possibly state income tax withholding applies. This is a sensible choice for the Butlers because fees charged for retirement plan investment choices are usually lower than fees for investments outside of an employer's plan. The plans would need to provide investment choices appropriate for their needs in retirement, however.
- Other options also may be available. To learn more about the options available under your employer's retirement plan, and for assistance in evaluating your financial situation, speak with a financial professional. For questions about your account, please contact The Hartford. Not sure how? Click *Contact Us* from this website.

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# Don't shortchange your future.

By the time you retire, you've probably been contributing to your employer's retirement savings plan for years—and you'd love to put some of that hard-earned money to immediate use, maybe for a down payment on a retirement home in the sun.

## Considerations for Drawing Down Your Assets

But cashing out your retirement assets means you'll be using money you'll probably want in the future. You have no idea how much money you'll really need in retirement—because you don't know how long you'll live. The best strategy may be to keep the assets in your retirement account compounding, tax-deferred, for as long as possible. Remember, the investment options you choose within your retirement savings account should correspond to your financial needs, goals, and risk tolerance.

Also bear in mind that for traditional qualified retirement plans, where contributions are made with pre-tax dollars, every penny you withdraw is taxable—and at your ordinary income tax rate, not the lower capital gains tax rate. The tax rate on ordinary income can be up to 35%. Plus, if you're under age 59 ½ when you make the withdrawal, there may be an additional federal tax 10% penalty.

Other options for how to handle your retirement account assets may be right for your financial situation. For assistance in reviewing your options and identifying the strategy that's right for you, please consult a financial professional. For information about your account, please contact The Hartford. Not sure how? Click "Contact Us" from this website.

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# Taking Retirement Distributions

The savings you've accumulated in your employer-sponsored retirement plan may be your greatest retirement resource. When the time comes to retire, you'll need to decide how you want that money distributed to you. Even though this decision may be years or even decades away, it's important to review your options carefully to begin to determine which will be best for you.

**Leave Your Money in Your Employer's Plan, if Allowed.** This option may be appealing if you are happy with the investment choices the plan has to offer and you want to continue to manage and rebalance the assets in this account. Remember that, the investments you choose should correspond to your financial needs, goals, and risk tolerance.

**Take a Lump-Sum Distribution.** Some retirees choose to withdraw part or all of their retirement savings at once, then invest it themselves or spend it. Such a move triggers serious tax consequences: The government withholds 20 percent toward income taxes immediately — and, depending on your income tax bracket, you may have to pay more by April 15. And if you're under age 59 ½ when you take this distribution, you'll be charged a 10 percent early withdrawal penalty to boot. In one move you may have slashed the amount of money you've saved and possibly damaged your financial prospects for retirement.

**Explore Other Options.** You may want to speak with a financial professional about other available distribution options that may be suited to your financial situation and retirement strategy.

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# The Social Security Decision

The size of your monthly Social Security benefit in retirement depends partly on how old you are when you start collecting it. If you choose to begin receiving Social Security benefits at age 62, the earliest allowable age, your check will always be smaller than if you had waited until reaching your full retirement age (FRA). Remember: If you can afford it, you can retire early and not claim benefits until later.

## **IF YOU TAKE SOCIAL SECURITY BEFORE YOUR FULL RETIREMENT AGE:**

**Pro:** You may be able to stop working earlier if you have a monthly Social Security check to supplement the retirement income from your savings.

**Con:** Your benefit will be permanently smaller than if you'd waited until your FRA, with a reduction in benefits that can vary from almost 7 percent to 30 percent. This reduction depends on what age before your FRA you start drawing benefits (the closer you are to your FRA, the smaller the reduction), and on your birth year.

## **IF YOU DO NOT TAKE SOCIAL SECURITY UNTIL YOUR FULL RETIREMENT AGE:**

**Pro:** For each year after age 62 that you don't draw benefits, your benefit increases, reaching its maximum amount at your FRA.

**Con:** You may need to continue to work part-time to supplement your retirement income from your savings.

## **FACTORS TO CONSIDER:**

**Average life expectancy;** your current health status and behaviors; your family health history and longevity. For people who expect a below-average lifespan, taking Social Security at age 62 may make more financial sense than waiting. The longer your expected lifespan, the more financial sense it makes to maximize your benefit.

**Your Other Sources of Retirement Income.** Social Security is meant to be a *supplement* to income from your retirement savings and/or pension. By working longer, you can continue contributing to your employer-sponsored plan and taking advantage of the employer match (if offered).

**Health Coverage.** Costs are skyrocketing. If you retire before age 65 and aren't insured under an employer plan, you may face costly premiums and expenses until age 65, when you'll become eligible for Medicare.

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# Social Security: Your Piece of The Pie

Rumor has it that Social Security may not be around for you to collect in your retirement years. There's plenty of controversy surrounding the Social Security system, and certain trends are worrisome. To understand the concern, consider how Social Security works.

When you're employed, you pay into the Social Security system in the form of taxes withheld from your paycheck. Through these payments you earn Social Security credits. Your employer also pays into the fund, and together your contributions are used to pay today's Social Security recipients. When you retire, some of the money you draw upon will be contributed by tomorrow's workers.

The amount of your Social Security benefit will depend on your earnings averaged over most of your working career and on the age you begin receiving the benefit. The earlier you decide to retire, the smaller your monthly check will be. But did you know that Social Security is likely to provide you with less than 40% of the amount you earn at the time you retire?

Now back to the key question. Will you ever see your payout from Social Security? Consider this: Census figures indicate that in the near future, when the huge population of baby boomers begins to reach retirement age, the number of retirees will grow much more quickly than will the number of workers supporting them. So money will be flowing out of the system faster than it flows in. There is concern that Social Security could run out of money as early as 2029.

The federal government has promised that the money *will* be there. In order to keep its promise, however, the government will have to cover a shortfall, probably by increasing taxes or reducing benefit levels now or in the future.

Whether Social Security will be more than pie in the sky remains to be seen. Whatever happens with Social Security, your future financial well-being is in your own hands. Used effectively, your company's retirement plan is still the best opportunity you have to provide adequately for your retirement years.

The investments you choose should correspond to your financial needs, goals, and risk tolerance. For assistance in determining your financial situation, please consult a financial professional. For information about your account, please contact The Hartford. Not sure how? Click *Contact Us* from this website.

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# Protecting Your Assets

Mark and Maria, a married couple in their mid-40s, have a home, children, retirement savings and, until recently, no estate plan. The lack of a plan had left them open to problems that could have cost them time, money and aggravation. More importantly, it could have cost them control over certain life decisions affecting their family. They can stay in charge now that they've taken the following three steps:

## Putting it in Writing

Writing a will allows you to say who gets what in your estate when you pass away. Without one, state law dictates how your assets are distributed and who looks after your children. After hiring an attorney to assist them, Mark and Maria prepared a will, named each other as executor of their estate (the person who files the will in probate court), and chose a sibling as an alternate. They named a guardian for their underage children, then listed their belongings and who was to get them.

## Naming an Advocate

The couple also set up health care proxies, appointing an advocate to act on their medical behalf should their doctor determine they are incapable of doing so themselves. Reviewing your end-of-life care wishes in detail with your advocate may help avoid conflict about who should make these decisions.

## Checking your Beneficiaries

It's important to remember that the beneficiary designated in a retirement savings plan takes precedence over whoever is named in a will. By law, however, your spouse has legal claim to your retirement plan account balance in the event of your death no matter who is named beneficiary, unless your spouse has waived that claim in writing.

Everyone needs a concrete estate plan. And everyone should revisit that plan when significant life changes occur (for example, divorce or a new baby). It's something Mark and Maria should do to ensure their plan stays up to date. Benefits include the security of knowing that during turbulent times caused by serious illness or death, the legal and financial process will be smoother for their family.

For questions about your retirement plan account, please contact The Hartford to speak with a participant services representative. Not sure how? Click *Contact Us* from this website.

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# Moving Toward Retirement

If your destination is a financially secure retirement, you don't want to get lost or sidetracked along the way. Here are six things you can do that can help you stay on top of your financial situation and your investment strategy. They're useful no matter how far along you are on the path to retirement.

## Monitor Your Net Worth

Each year, estimate the current value of all your assets (your home, savings, investments, etc.) and subtract your debts (the balance owing on your home, credit cards, loans, etc.). If you spot a problem, work to resolve it promptly.

## Become an Informed Investor

Learn about your investment options by reading and asking questions. Develop a personal investment strategy. Keep an eye on how your investments perform.

## Fine-tune Your Investment Strategy

Regularly ask yourself: Do my investments offer me the best chances for the return I need, given my age, income, desired level of risk, and other individual circumstances? Am I contributing all I can?

## Don't Focus on Daily Market Changes

Following the movements of the stock market can be educational. But for many people, daily monitoring is stressful and sometimes leads to their making impulsive changes they later regret.

## Maintain an Appropriate Risk Comfort Level

Carefully weigh your ability to withstand risk against your need for high returns. Don't let panic push you into a risk category that's too high—or too low—for you.

## Stay the Course

Your overall plan should be based on proven principles of investing. By all means, make changes when they're called for; but dramatic changes made under pressure are a quick route to trouble.

The investments you choose should correspond to your financial needs, goals, and risk tolerance. For assistance in determining your financial situation, please consult a financial professional. For information on your account, please contact The Hartford. Not sure how? Click *Contact Us* from this website.

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# Beyond Retirement Planning

People have different ideas about how they plan to enjoy retirement. Some plan to travel, while others plan to do volunteer work or start a new career. Whatever your vision of retirement is, there are a number of important issues to consider. Here's a look at some of them:

**Estate Planning** If you're like most people, your focus may be on accumulating assets for your retirement, not passing them on to others. However, if you don't take an active role in planning for the eventual distribution of your assets, a large portion of your estate may be unintentionally eaten up by taxes. Almost everyone — young and old, experienced investors and those just starting out — should have an estate plan that clearly spells out where his or her assets will go. Every state has a set of laws that governs the distribution of an individual's assets if he or she dies without leaving a will. The trouble is, under these laws, the assets may not go to the people you want in the manner that you want. But a little time spent planning your estate can ensure that your wishes, not the state's, are carried out. A qualified attorney and financial planner can help you develop a thoughtful plan to secure your assets.

**Life Insurance** A life insurance policy can be an important safety net for your loved ones. Although you may not like to think about it, after your death there may be bills that still need to be paid, such as a mortgage, children's education, and food and clothing for your dependents. And don't forget funeral costs and medical bills. The last thing anyone wants to do is burden his or her loved ones with this financial responsibility. By helping to replace lost income, pay off debts and cover expenses, life insurance can help ensure the financial security of those who matter most should something happen to you.

**Health Insurance** Whether you are 25 or 65, long-term considerations for health care are important. Medical expenses can be costly in more ways than you might expect. A serious injury or debilitating illness can wipe out an entire retirement portfolio, erasing a lifetime of hard work and financial planning. To ward off this calamity, consider shoring up your defenses now with a disability insurance policy to help you maintain an income stream if you are ever unable to work. Many employers offer this type of coverage at relatively low rates — however, not all policies are portable if you change employers — so an individual policy may be worth considering.

Also, as you approach retirement, learn how to get the most out of Medicare and, when applicable, Medicaid. The U.S. government maintains a website, [medicare.gov](http://medicare.gov) that's full of important Medicare information. You can also call 1-800-MEDICARE for assistance. To better protect your health and your assets, you should learn what's available to you before you need it.

There is more to planning for retirement than saving enough money to meet your expenses. By doing your homework beforehand, you'll have a better handle on what to expect when your retirement day finally arrives. For questions about your account, please contact The Hartford. Not sure how? Click *Contact Us* from this website.

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